

## Message Text

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17 11

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 EB-11 FRB-02 INR-10

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 5141

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E.O. 11652 : N/A

TAGS: ECON, ETRD, AR.

SUBJECT: GOA REVALUES PESO SELECTIVELY FOR IMPORTS OF  
CRITICAL INDUSTRIAL SUPPLIES.

REF: EMBASSY'S A-12.

1. GOA 17 JANUARY AUTHORIZED QUOTE SELECTIVE  
REVALUATION UNQUOTE OF PESO AGAINST DOLLAR FOR IMPORTATION  
OF APPROXIMATELY 300 SO-CALLED CRITICAL INDUSTRIAL RAW  
MATERIALS AND SEMI-PROCESSED INPUTS. IMPORTERS THESE  
ITEMS CAN NOW OBTAIN DOLLARS AT QUOTE COMMERCIAL UNQUOTE  
RATE OF 5.00 PESOS PER DOLLAR INSTEAD OF QUOTE MIXED  
UNQUOTE RATE OF 8.68, FOR SHIPMENTS EMBARKED AFTER 15  
SEPT. 1973. VARIABLE SURCHARGE IMPOSED IN EACH CASE  
ACCORDING TO PRICE INFLATION EXPERIENCED FOR EACH ITEM IN  
INTERNATIONAL MARKET DURING PERIOD JUNE-DECEMBER 1973.  
OBJECT OF MEASURE IS TO ALLOW IMPORTER TO PAY SAME PESO  
PRICE NOW FOR MATERIAL AS AT END JUNE 1973, WITH  
DIFFERENCE SUBSIDIZED BY CENTRAL BANK.

2. GOA IN PROCESS FORMULATING AND RELEASING SUCCESSIVE  
LISTS OF MATERIALS AFFECTED. FIRST LIST CONTAINS 83  
ITEMS, INCLUDING IRON AND STEEL SCRAP, TINPLATE,  
BICARBONATE OF SODA, VARIOUS PETROCHEMICAL FEEDSTOCKS,  
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LOW-DENSITY POLYETHYLENE, PVC, NATURAL AND SYNTHETIC

RUBBER, SEVERAL TYPE OF WOOD, CHEMICAL WOOD PULP, COPPER, COBALT, MANGANESE, AND SULPHUR. MEASURE IN GENERAL WILL INCLUDE FERROUS AND NON-FERROUS METALS, ORGANIC AND INORGANIC CHEMICALS, WOOD AND WOOD PULP, NEWSPRINT, AND OTHER SCARCE INDUSTRIAL INPUTS, GOA ESTIMATES PUBLICLY THAT IMPORT VALUE OF TOTAL ITEMS TO BE INCLUDED IS APPROXIMATELY US\$ 300 MILLION ANNUALLY. MAXIMUM REVALUATION, FOR MATERIALS EXPERIENCING GREATEST INFLATION DURING BASE PERIOD, ABOUT 42 PER CENT. CENTRAL BANK AND MINISTRY OF ECONOMY OFFICIALS, ASSERT COST CAN BE BORNE AS LONG AS REQUIRED TO INSULATE DOMESTIC PRICE AND WAGE PROGRAMS FROM INTERNATIONAL INFLATION.

3. THIS ACTION BEST VIEWED AS ANOTHER TRANSITORY IMPROVISATION TO UNDERCUT EXTERNAL PRESSURES ON ARGENTINE ECONOMY AND DEFEND GOA'S SOCIAL PACT, CENTRAL ELEMENT OF CURRENT ECONOMY POLICY. THIS IS ANOTHER EXCHANGE RATE TO BE ADDED TO THE EXISTING MULTIPLE EXCHANGE RATE SYSTEM.

QUOTE SELECTIVE REVALUATION UNQUOTE TAKES PLACE OF EARLIER DECISION BY MINECON GELBARD TO PERMIT MANUFACTURERS TO PASS ON HIGHER IMPORT COSTS THROUGH INCREASES IN OFFICIALS SALES PRICES. PERON VETOED THIS APPROACH ABRUPTLY AND PUBLICLY DECEMBER 30, 1973 (SEE REFAIR, P.2) TO PLACATE LABOR AND HOLD LINE ON BOTH PRICES AND WAGES. OBJECTIVE NOW TO LET CENTRAL BANK CARRY LOAD OF CONTINUING IMPORTS NECESSARY TO SUSTAIN INDUSTRIAL ACTIVITY IN FACE OF WORLD COMMODITY PRICE JUMPS AND TIGHTER COMPETITION TO OBTAIN SUPPLIES. HOW LONG GOA CAN SUPPORT THIS EFFORT SEEMS PROBLEMATIC; MAGNITUDE OF SUBSIDY MAY INCREASE SHARPLY AS DIFFERENT SECTORS LOBBY TO INCLUDE THEIR OWN INPUTS ON THE LIST AND WORLD PRICES CONTINUE TO RISE. HOWEVER, MAXIMUM REVALUATION COVERS ONLY PART OF INCREASES FOR MANY CRUCIAL PRODUCTS DURING LAST HALF 1973, SO RELIEF AFFORDED MANY SECTORS ALREADY QUITE LIMITED. ALSO, RISING WORLD PRICES FOR ARGENTINE EXPORTS AND EFFORTS TO BOOST MANY PROMOTED EXPORTS WILL MEAN GOA MUST DELIVER GROWING VOLUME

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OF PESOS TO EXPORTERS AT EFFECTIVE RATES MUCH IN EXCESS OF 10 PER DOLLAR (AFTER ACCOUNTING FOR SUBSIDIES, TAX BENEFITS, ETC) WHILE TAKING IN PESOS FROM IMPORTERS OF CRITICAL MATERIALS AT RATES BELOW EIGHT TO ONE. IN ABSENCE OF SIGNIFICANT RELAXATION OF DOMESTIC PRICE FREEZE, PREVIOUSLY-NOTED TENDENCY TOWARD DRAWING DOWN OF INDUSTRIAL STOCKS TOWARD DANGER POINT WILL CONTINUE, THOUGH PROBABLY AT SOMEWHAT REDUCED

RATE.

4. FURTHER COMMENTS AND RELATED DOCUMENTS WILL BE TRANSMITTED SEPARATELY.  
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## Message Attributes

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